

Investing for Impact: A Snapshot of EGA Members' Leveraged Investment Strategies

Introduction

The strategies grantmakers use to deploy their philanthropic capital are changing rapidly. Foundations have increasingly recognized the limitations of paying out the minimally required 5 percent of their assets in the form of grants while leaving the other 95 percent invested in ways largely disconnected from their philanthropic mission, if not in outright conflict with the programmatic areas that their grants support. Consequently, interest in more responsible investing has grown over the last several years, with investment managers and consultants rising to meet the growing demand from mission-driven institutional investors for responsible investing options. Today, foundations find themselves poised to take advantage of an unprecedented number of mission-aligned social and environmental investing opportunities that have arisen across asset classes.

To support innovation in this area, the Environmental Grantmakers Association has launched “The Other 95%,” an internal program to facilitate the sharing of resources and information about strategies for leveraging philanthropic assets more fully to tackle today’s pressing environmental challenges. As part of that initiative, EGA commissioned Dr. Joshua Humphreys, Director of the Center for Social Philanthropy, to conduct this preliminary study of EGA members that have begun to use asset-based investment strategies to advance their philanthropic missions more fully. This report presents data from a targeted cross-section of EGA’s membership; while the sample was limited (representing less than 20 percent of all members and one-third of the association’s total member assets), the findings nevertheless highlight both the depth and breadth of their involvement in social and environmental investing.

The report sample includes 43 foundations with nearly \$66 billion in total assets, ranging from some of the largest private foundations with billions of dollars under management to mid-size family foundations, from community foundations to smaller re-granting foundations and limited-term family charitable trusts. Geographically, many respondents cluster in New York City and the San Francisco Bay Area, but the sample also includes EGA members from the upper Midwest, the Mid-Atlantic states, the Pacific Northwest, New England, and Texas. Although all are environmental grantmakers, many of these foundations are also interested in other programmatic areas that have shaped their involvement in asset-based strategies.



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Of the 43 members included in the survey, 40 were found to engage in at least one of the following investment strategies:

Program-Related Investments (PRIs)

- 25 have made program-related investments
- More than \$306 million was identified in outstanding PRI portfolios at 22 EGA-member foundations
- Six have made PRIs to support environmental programs, particularly in land conservation and “green” affordable housing

Social and Environmental Mission-Related Investing (MRI)

- 27 incorporate social or environmental criteria into the management of \$23 billion in foundation investments, across various asset classes, from cash and fixed income to public and private equity to real estate and commodities such as timber
- Environmental factors are the most frequently incorporated MRI criteria, affecting the management of more than \$676 million at 15 foundations

Active Ownership Strategies

- 17 foundations with more than \$16 billion in total assets have actively voted their proxies
- 11 foundations, controlling nearly \$1.3 billion, have filed or co-filed a shareholder resolution at a company in which they own stock
- A total of 15 respondents with more than \$2.6 billion reported that they would consider co-filing a shareholder resolution
- 18 EGA members with more than \$3.2 billion in assets engage on issues through investor networks, such as the Carbon Disclosure Project, the Interfaith Center on Corporate Responsibility (ICCR), the Investor Network on Climate Risk (INCR), and the UN Principles for Responsible Investment

Description of Findings

Program-Related Investments (PRIs)

The Terms

Program-related investments (PRIs) are investments that advance charitable goals but generate a concessionary rate of return below prevailing market rates. They often take the form of low- or no-interest loans but can also be equity investments, loan guarantees, or even cash deposits at a community development bank, several of which now link their lending to environmental issues such as energy efficiency and smart growth. Because of their below-market rates of return and their explicit charitable purpose, PRIs—unlike market-rate mission investments—can be counted

toward grantmaking payout requirements under US tax law. Therefore, they need not come from an allocation of endowment assets, although some foundations do include them as part of their investment portfolios to prevent PRIs from replacing grants.

The Trends

Twenty-five of the 43 foundations surveyed have made PRIs; 22 of them currently hold a combined \$306 million in their PRI portfolios, for an average portfolio size of \$13.9 million per foundation. The Ford Foundation has made pioneering program-related investments since 1968; its outstanding PRIs total more than \$118 million, constituting nearly 39 percent of the

PRI assets documented here. Other EGA members, such as the Charles Stewart Mott Foundation and the Rockefeller Foundation, have made PRIs since the 1980s, generally to support wealth-building community development programs. In 1998, the Rockefeller Foundation formalized its PRIs into a Program Venture Experiment (ProVenEx) that made approximately \$20 million in investments, including more than \$12 million in PRIs. Since the experiment's conclusion in 2007, the Foundation has developed an "Impact Investing" initiative in which PRIs are now considered another "arrow in the program officer's quiver," rather than an isolated activity.

Only six foundations included in the survey made PRIs to support their environmental programs. The David and Lucile Packard Foundation, for example, has used PRIs to provide vital bridge loans to finance major land conservation purchases and microloans to support small-scale sustainable businesses. The Heinz Endowments have more than \$11 million in outstanding PRIs, many of them going to support environmental industries and the life sciences in Pittsburgh and western Pennsylvania. One need not be a multi-billion-dollar foundation to construct a PRI portfolio, however. Several foundations with assets ranging from \$50 million to more than \$500 million, including the Bullitt Foundation, the George Gund Foundation, and

There are potentially multiple obstacles preventing environmental grantmakers from beginning program-related investments or expanding them further, including the burdens of due diligence and legal compliance. An increasing numbers of PRI intermediaries have emerged to help mitigate some of the costs and burdens involved. In addition, the PRI Makers Network (www.primakers.net), an association of some 120 foundations (including 17 EGA members) that use PRIs and other investments to support their programs, has become an important forum for foundations to share information and resources, regardless of their experience level making PRIs.

the Russell Family Foundation, have made PRIs both directly to organizations and through intermediaries such as Enterprise Community Partners, which develops energy efficient "green" affordable housing in economically distressed neighborhoods.

Mission-Related Investing (MRI)

The Terms

Mission-related investing (MRI) incorporates environmental, social, and governance (ESG) factors into foundation endowment management. Whereas PRIs by definition produce concessionary rates of return for charitable purposes, MRI seeks to generate market-rate returns on investments that align with philanthropic goals in various ways. However, MRI has not been defined in US tax law, as PRIs have, so the language used to describe the incorporation of social and environmental issues into endowment management continues to evolve. Also, ESG factors considered in MRI may address issues beyond a foundation's programmatic interests to encourage better corporate social responsibility (CSR), transparency, and accountability. Increasingly, though, a preference for the term "mission-related investing" appears to be taking hold within the foundation community.

Due to the rapid evolution in concepts and practices, this report has tracked the diverse ways in which EGA members have incorporated social and environmental criteria into endowment management on their own terms, whether it be through "negative screening"—i.e., building a portfolio that avoids companies involved with undesirable businesses, such as tobacco, nuclear power or weapons—or "positive screening"—proactively selecting companies with positive CSR attributes—or simply using ESG factors to complement conventional investment analysis. Applying mission-related social or environmental factors to investment choices often takes different forms for different asset classes; screening public-equity investments in large corporations is a much different process from evaluating the potential impact of a private investment in a social venture-capital fund or a responsible-property fund. Some mission investors prefer to speak of "double-" or "triple-bottom-line" investments that generate not only financial return but also demonstrable social or environmental returns on their investment. Other foundations focus exclusively on "green investing" in order to mitigate risks and seize

opportunities related to environmental issues, such as climate change, natural resource management, clean technology, or toxics. Still others view themselves as “responsible investors” who assess social and environmental issues as part of the long-term, prudent stewardship of their institution’s assets.

The Trends

Twenty-seven of 43 grantmakers, with more than \$36 billion in combined assets (63 percent of the EGA members included in the survey), incorporate at least one social or environmental investing criterion into their endowment’s portfolio management. Of these combined endowment assets, \$23 billion were actually subject to ESG criteria. The environment was the most frequently cited one, with 15 EGA members reporting that they incorporated environmental issues into portfolios worth more than \$676 million in assets. In terms of the assets affected, tobacco screening has a disproportionate influence: 14 foundations, including several of the largest EGA members, screened out more than \$22 billion in assets from companies with tobacco revenues.

The foundations included in the survey incorporated investment criteria related to a variety of other ESG issues as well. Defense and military companies and human rights issues were the third-most-frequently-cited screening criteria, affecting approximately \$300 million in assets; seven respondents referred to each. Five foundations invested more than \$2.5 billion while avoiding alcohol and gambling-related companies, both traditional “sin stock” screens. Three respondents explicitly noted screening out nuclear power from portfolios totaling \$335 million. Six foundations subjected investments worth \$258 million to criteria related to product and consumer safety, labor rights, and workplace diversity and equal employment opportunity. Four incorporated sustainability criteria into portfolios worth more than \$258 million, while five cited community impact as an issue of concern affecting \$255 million in assets. A much more limited number of foundations incorporated criteria related to animal rights and testing, corporate governance, faith-based values, firearms, the MacBride principles related to fair hiring in Northern Ireland, pornography, and terrorist states, all affecting less than \$70 million.

The market-rate social and environmental investments EGA members are making span asset classes and invest-

EGA & MRI—THE BIGGER PICTURE

In its *2007 Report on SRI Trends in the United States*, the Social Investment Forum Foundation identified \$57.3 billion in foundation endowment assets affected by social or environmental criteria in 2007. The 27 EGA-member survey participants who engage in MRI represent 40 percent of the Forum’s figure (or \$23.1 billion). Clearly, the environmental grantmakers surveyed are contributing significantly to the overall philanthropic community’s share of the social investing universe. However, seen more broadly in relationship to other institutional investors such as public pensions, hospitals, college and university endowments, faith-based investors, and union pension funds, our sample of EGA members is contributing only 1 percent of the \$1.88 trillion in institutional investor assets subject to social or environmental criteria, identified by the Social Investment Forum.*

*Although the Social Investment Forum’s data provide the most comprehensive estimate available of foundations’ use of environmental or social investing criteria, the \$57.3 billion figure remains a conservative undercount of what foundations are doing. Additionally, not all EGA members included here were captured in the Forum’s survey.

ment styles. Most of the assets affected by mission-related and other ESG criteria are in public equity investments, managed in portfolios holding corporations of all sizes, large-, mid-, and small-cap, both domestic and global. Separately managed accounts, exchange-traded funds (ETFs), and institutional share classes of socially or environmentally screened mutual funds are the public-equity vehicles of choice for respondents, but the kinds of ESG issues incorporated and investment approaches used by asset managers vary widely, from comprehensively screened index funds to actively man-

aged portfolios focusing on “green” investment opportunities. (See the Appendix page 7 for the most commonly cited managers and funds, across asset classes.) Numerous social and community-development bond funds provide fixed-income exposure, while several EGA members manage cash allocations through community development banks or intermediaries such as the Calvert Social Investment

Foundation, which provides due diligence and quantitative social-impact analysis of community-investment opportunities—often yielding risk-adjusted, market-rate returns and tangible social and environmental benefits.

Some of the most excitement-generating experimentation in mission-related investing is occurring in “alternative” asset classes, where EGA members are finding opportunities to support sustainable businesses through social venture-capital and “double-“ or “triple-bottom-line” private-equity funds, often focusing on clean technology, renewable energy, or commodities such as sustainably harvested timber. Despite persisting myths about weak performance, respondents repeatedly said that they expected superior long-term returns from their MRI portfolios, and investment consultants, board members, and foundation finance officers who used to be sources of skepticism about social and environmental investing are increasingly recognizing that one need not sacrifice returns for mission alignment and social impact. Indeed, performance data shared by EGA members demonstrated that MRI has provided compelling returns when measured against conventional unscreened benchmarks.

Active Ownership Strategies

The Terms

Regardless of whether a foundation chooses to incorporate social or environmental issues into its endowment management, all investors face choices when it comes to exercising their rights and responsibilities as owners of the assets in which they do invest.

EGA members have helped produce gradual but documented changes in corporate policies and practices by endorsing resolutions on issues such as climate change, sustainability reporting, products take-backs and recycling at computer and beverage companies, preservation of old growth forests, disclosure of toxics, and advisory votes on excessive compensation.

Increasingly, foundations are embracing practices of active ownership. These include voting by proxy on key matters that affect the companies they own, filing shareholder resolutions on issues of concern, endorsing resolutions filed by others, engaging in direct dialogue with corporate management, or participating in networks of investors in order to leverage collective ownership stakes to encourage positive changes

in corporate behavior. Some foundations also monitor developments in shareholder rights and communicate with groups such as the Securities and Exchange Commission and the Financial Accounting Standards Board about transparency, corporate governance and CSR issues.

The Trends

Eighteen members surveyed, with more than \$3.2 billion in investment assets, have participated in shareholder coalitions (for a complete listing of coalitions, see the Appendix, page 7). The Carbon Disclosure Project, Ceres, the Interfaith Center on Corporate Responsibility, and the Investor Network on Climate Risk were the most frequently cited networks, each with six EGA members participating and others citing them as valuable resources for proxy voting information. Seventeen EGA members, with more than \$16 billion in endowment assets, reported voting their proxies actively on mission-related issues of concern such as sustainability reporting, climate change, toxics, and human rights, as well as on corporate governance matters. Fifteen EGA members surveyed, with more than \$2.6 billion in investment assets, reported that they would consider co-filing a shareholder resolution on an issue of concern in the future if presented with the right opportunity or asked by trusted peers; 11 members, with nearly \$1.3 billion in investment assets, have already filed or co-filed resolutions. EGA members have helped produce gradual but documented changes in corporate policies and practices by endorsing resolutions on issues such as climate change, sustainability reporting, products take-backs and recycling at

computer and beverage companies, preservation of old growth forests, disclosure of toxics, and advisory votes on excessive compensation. Eight members, with just under \$1 billion in assets, have joined in direct dialogue with corporate management at companies whose stock

they own. Only five reported monitoring shareholder rights issues, and even fewer reported writing the SEC about issues of concern, related to corporate governance, transparency, and accountability or the proxy process.

Closing

As an investor, whatever approach a foundation chooses to use—from making below-market-rate PRIs to committing endowment assets to market-rate mission-related investing, from actively voting proxies to engaging through investor networks—increasing numbers of EGA members are mobilizing their assets in creative ways to extend the reach of their philanthropic work. And whether an environmental grantmaker's program-

matic concerns touch upon climate change, energy, conservation, toxics and pollution, sustainable development, agriculture and food, biodiversity, globalization, or environmental justice, opportunities to address all of these issues and more abound—not simply through supporting organizations with grants but also by leveraging the broader range of assets at its disposal.

About the Sample and Methodology

Of 29 EGA members contacted, responses came from interviews and exchanges with the following CEOs and senior officers at 17 foundations, representing a cross-section of the EGA membership with combined assets of more than \$24 billion: Denis Hayes, The Bullitt Foundation; Sam Passmore, Charles Stewart Mott Foundation; Edith Eddy, Compton Foundation; Curt Riffle, The David and Lucile Packard Foundation; Diane Allison, Educational Foundation of America; Vic DeLuca, Jessie Smith Noyes Foundation; David Todd, Magnolia Charitable Trust; Jenny Russell, Merck Family Fund; Lance Lindblom and Laura Shaffer, Nathan Cummings Foundation; Dave Beckwith, the Needmor Fund; Stephen Foster, The Overbrook Foundation; Jon Jensen, The Park Foundation; Antony Bugg-Levine, The Rockefeller Foundation; Tim Little, The Rose Foundation for Communities and the Environment; Richard Woo, The Russell Family Foundation; Faith Brown, Vermont Community Foundation; and Tom Reis and Karen Whalen, W. K. Kellogg Foundation. This sample yielded a 59-percent response rate.

Direct responses were supplemented with targeted tracking data from the Center for Social Philanthropy's foundation databank on 26 additional EGA members with combined assets of more than \$41 billion: Abell Foundation, As You Sow, Benwood Foundation, Inc., Brainerd Foundation, Cedar Tree Foundation, the Christensen Fund, Ford Foundation, French American Charitable Trust, Gaylord and Dorothy Donnelley Foundation, George Gund Foundation, Gordon and Betty Moore Foundation, the Heinz Endowments, Kohlberg Foundation, Kresge Foundation, Laird Norton Family Foundation, Lemmon Foundation, The McKnight Foundation, Mertz Gilmore Foundation, Rockefeller Brothers Fund, San Francisco Foundation, Tides Foundation, V. Kann Rasmussen Foundation, Wallace Alexander Gerbode Foundation, Weeden Foundation, Wege Foundation, and the William and Flora Hewlett Foundation. The full sample for this report therefore involved 43 EGA members with total combined assets of nearly \$66 billion, representing 18 percent of the total number of members and 33 percent of the approximately \$200 billion in combined EGA-member assets.

Resources and Reading

Consultants Used by EGA Members

Alan Biller and Associates.
www.alanbiller.com

Asset Consulting Group.
www.acgnet.com

Cambridge Associates LLC.
www.cambridgeassociates.com

Colonial Consulting, LLC.
www.colonialny.com

Federal Street Advisors.
www.federalstreet.com/foundations/

FSG Social Impact Advisors.
www.fsg-impact.org

GPS Capital Partners.
www.gpscapitalpartners.com

KLD Research and Analytics, Inc.
www.kld.com

King Investment Advisors, Inc.
www.kingadvisors.com

Laird Norton Tyee.
www.lntyee.com

Mercer Investment Consulting.
www.mercer.com/ri

RBC Dain Rauscher, SRI Wealth
Management Group.
www.rbcfc.com/sri/

Rockefeller Philanthropy Advisors.
www.rpa.org

Threshold Group.
www.thresholdgroup.com/serv8907.htm

Foundation Affinity Groups

Council on Foundations, SRI Taskforce.
www.cof.org

Foundation Partnership on Corporate
Responsibility.
www.foundationpartnership.org

Grantmakers in Health, Resources on Mission-
Related Investing.
[www.gih.org/faq3994/faq_show.htm?
doc_id=533003](http://www.gih.org/faq3994/faq_show.htm?doc_id=533003)

International Human Rights Funders Group,
Get Off Your Assets! (GOYA) Working Group
www.hrfunders.org/members/assets.php

PRI Makers Network. www.primakers.net

“Two Percent for Mission” Campaign.
Contact: David Wood, Institute for Responsible
Investment, Boston College, wooddl@bc.edu

Active Ownership Strategies

Proxy Voting, Corporate Governance, Shareholder Resolutions

As You Sow. www.asyousow.org

The Corporate Library.
www.thecorporatelibrary.com

Davis Global Advisors. www.davisglobal.com

Friends of the Earth, Handbook on Socially-
Oriented Shareholder Activism
www.foe.org/international/shareholder/

Glass, Lewis & Co., LLC. www.glasslewis.com

ProxyDemocracy. www.proxydemocracy.org

Proxy Governance. www.proxygovernance.com

Proxy Vote Plus. www.proxyvoteplus.com

RiskMetrics Group. www.riskmetrics.com

Frequently Used Asset Managers and Investment Vehicles (By Asset Class)

Public Equity

Large Cap

Bartlett & Co.
Calvert
Domini Social Investments
iShares KLD 400 Social Index
ETF
Neuberger Berman Socially
Responsive Investing Group
Northern Trust
Parnassus
PAX World
Prentiss Smith
Trillium Asset Management
Corp.
Vanguard FTSE Social Index
Fund
Walden Asset Management

Small/Mid Cap

Ariel Investments
Bernzott Capital
Kenwood Capital Management
LLC
New Alternatives Fund
Pinnacle
PowerShares Clean Energy Index
ETF
PowerShares Cleantech Portfolio
(ETF)
Winslow Green Growth Fund

Balanced/Multi-Cap

King Investment Advisors
Socially Responsible Equity and
Balanced Portfolios
PAX World
Pinnacle
TIAA-CREF Social Choice
Equity Fund (Institutional)
Walden Asset Management

International/Global

Boston Common Asset
Management
Calvert World Values
International Equity Fund
Capital Guardian
Domini Social Investments
Generation Investment
Management LLP
Portfolio 21
Rockefeller & Co., Inc.

Private Equity and Venture Capital

Birchwood Associates, LP
Blue Dot Ventures, LLC
Borealis
Calvert Social Ventures
Carlyle Riverstone Renewable
Energy Fund
CEI Community Ventures
CleanTech Fund
Commons Capital, LP, and
Commons Capital II, LP
Equilibrium Capital Group LLC
Expansion Capital Partners: Clean
Technology Fund
FreshTracks Capital I and II
Global Environment Fund
Heartland Forest Funds
Legacy Venture Funds
Lyme Northern Forest Fund
Piper Jaffray CleanTech Ventures,
LP
Riverstone
Solstice Capital II, LP
Village Ventures

Fixed Income

Access Capital Strategies
Community Investment Fund
Calvert Social Investment Fund
Bond Portfolio
Community Capital Management
Domini Social Bond Fund
PAX World

Community Investments

Access Capital Strategies
Community Investment Fund
Calvert Foundation Community
Investment Notes
CEI Community Ventures
Community Capital Management
Enterprise Community Loan
Fund
Root Capital
ShoreBank
ShoreBank Pacific
TULIP

Other Resources on Mission-Related Investing

Blended Value.
www.blendedvalue.org

Institutional Shareowner.
www.institutionalshareowner.com

Center for Social Philanthropy.
www.socialphilanthropy.org

KLD Research & Analytics, Inc.
www.kld.com/resources/index.html

Community Investing Center.
www.communityinvest.org

Responsible Property Investing Center.
www.responsibleproperty.net

Green America
(formerly known as Co-op America).
www.coopamerica.org/socialinvesting/

SocialFunds.
www.socialfunds.com

Institute on Responsible Investment, Boston
College Center for Corporate Citizenship
www.bcccc.net/responsibleinvestment

Investor Networks

Carbon Disclosure Project, a special project of Rockefeller Philanthropy Advisors.
www.cdp.net

Ceres.
www.ceres.org

Council of Institutional Investors.
www.cii.org

Impact Investing Collaborative, an initiative of the Rockefeller Foundation.
www.rockfound.org/efforts/impact_investing/impact_investing.shtml

Interfaith Center on Corporate Responsibility (ICCR).
www.iccr.org

International Corporate Governance Network (ICGN).
www.icgn.org

Investor Environmental Health Network.
www.iehn.org

Investor Network on Climate Risk (INCR), a project of Ceres.
www.incr.com

Social Investment Forum.
www.socialinvest.org

Sudan Divestment Taskforce.
www.sudandivestment.org

United Nations Principles for Responsible Investment (UN PRI).
www.unpri.org

Further Reading

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Compounding Impact: Mission Investing by U.S. Foundations, FSG Social Impact Advisors, 2007

Investing for Impact: Managing and Measuring Proactive Social Investments, FSG Social Impact Advisors, 2006. All available via www.fsg-impact.org/app/content/ideas/section/277

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www.kld.com/resources/papers/Virtue_of_Consistency.pdf

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www.iehn.org/documents/IEHN%20Toxic%20Stock%20Report%203-08.pdf

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<http://philanthropy.com/free/articles/v18/i14/14000701.htm>

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The mission of EGA is to help member organizations become more effective environmental grantmakers through information sharing, collaboration and networking.



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